

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
(“CHFFA” or the “Authority”)
EXECUTIVE SUMMARY AND RECOMMENDATION

Providence Health System - Southern California

Amendment to Resolution Number 392

May 29, 2014

PURPOSE OF THE REQUEST:

Providence Health System - Southern California (“PHS – Southern California”) seeks Authority approval to amend Resolution Number 392 for the following purposes:

First, PHS – Southern California would like a one year extension to the Resolution (the “Expiration Date”) thereby providing additional time by which PHS – Southern California may price and close its bonds. Presently, the Expiration Date is set for June 14, 2014. Secondly, PHS – Southern California seeks to increase the not-to-exceed par amount of the bond issue from \$149,705,000 to \$308,000,000 to refund all or a portion of the outstanding CHFFA/Providence Health & Services Series 2008C Fixed Rate Bonds (presently at \$272,725,000).

BACKGROUND:

At the June 14, 2013 board meeting, the Authority approved Resolution Number 392, which authorized PHS – Southern California to offer tax-exempt bonds in the principal amount not to exceed \$149,705,000. Bond proceeds were approved to refund a portion of the CHFFA/Providence Health & Services Series 2008C Fixed Rate Bonds and to pay costs of issuance. Since Authority approval however, PHS – Southern California has not issued the bonds because of unfavorable financial market conditions. Specifically, an increase in interest rates experienced since Authority approval would not have allowed PHS – Southern California to realize the hoped for cost savings associated with the issuance of the refunding bonds. Presently however, PHS – Southern California now considers the current financial market conditions to have sufficiently improved to achieve the desired cost savings.

FINANCIAL OVERVIEW:

Staff reviewed Providence Health & Services (“PHS”) Consolidated Financial Statements. PHS – Southern California is a member of the PHS Obligated Group. The most recent audited financial statements are for the period ending December 31, 2013. PHS’ audited income statement and balance sheet appear to reflect stable performance over the review period with operating revenues increasing approximately 5%, from approximately \$10.6 billion in FY 2012 to approximately \$11.1 billion in FY 2013. PHS’ financial strength appears to be solid with a debt service coverage ratio of 6.01x and a proforma debt service coverage ratio of 6.10x. PHS – Southern California expects to achieve approximately \$15.6 million in net present value savings from the proposed refunding over the life of the bonds.

RECOMMENDATION:

Staff recommends the Authority approve the amendment to Resolution Number 392 to extend the Expiration Date by one year and to increase the not to exceed principal amount of the bonds to \$308,000,000. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Fieldman, Rolapp & Associates, Inc., the Authority’s financial advisor, concur with the Authority’s staff recommendation.

AMENDMENT TO RESOLUTION NO. 392

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
AMENDING RESOLUTION NO. 392, ADOPTED ON JUNE 14, 2013, RELATING TO THE
ISSUANCE OF REVENUE REFUNDING BONDS TO REFINANCE
PROJECTS AT THE HEALTH FACILITIES OF
PROVIDENCE HEALTH SYSTEM – SOUTHERN CALIFORNIA

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to issue revenue bonds and lend the proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority; and

WHEREAS, Providence Health System - Southern California is a nonprofit religious corporation duly organized and existing under the laws of the State of California (the “Borrower”), which owns and operates health care facilities in the State of California, and is affiliated with Providence Health & Services, Providence Health & Services – Washington (the “Obligated Group Agent”), Providence Health & Services – Oregon, Little Company of Mary Ancillary Services Corporation, Providence St. Joseph Medical Center, Providence Health & Services – Montana, Providence Health & Services – Western Washington and Swedish Health Services; and

WHEREAS, the Authority previously issued its Revenue Bonds (Providence Health & Services), Series 2008C (the “Prior Bonds”), in the aggregate principal amount of \$289,195,000, of which \$272,725,000 currently is outstanding, and loaned the proceeds thereof to the Borrower to refinance certain existing indebtedness incurred in connection with the acquisition, construction, renovation and equipping of health facilities, as more particularly described under the caption “Prior Project” in Exhibit A hereto (the “Prior Project”); and

WHEREAS, on June 14, 2013, the Authority adopted its Resolution No. 392 (the “Original Resolution”), approving, among other things, the issuance and sale of revenue bonds in an aggregate principal amount not to exceed \$149,705,000 and the loan of the proceeds thereof to the Borrower to (i) advance refund a portion of the outstanding Prior Bonds, and (ii) pay costs of issuance of such revenue bonds; and

WHEREAS, the Borrower has now requested that the Authority amend the Original Resolution to approve the issuance and sale of one or more series of its revenue bonds in an aggregate principal amount not to exceed \$308,000,000 and the loan of the proceeds thereof to the Borrower to (i) advance refund all or a portion of the outstanding Prior Bonds, and (ii) pay costs of issuance of the Bonds (as defined below); and

WHEREAS, approval of the terms of issuance and sale of such revenue bonds and various related matters is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

SECTION 1. Pursuant to the Act, revenue bonds of the Authority designated as the “California Health Facilities Financing Authority Revenue Bonds (Providence Health & Services)” (the “Bonds”), in a total aggregate principal amount not to exceed \$308,000,000, are hereby authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in the indenture pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the fifth recital above.

SECTION 2. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates at any time prior to May 29, 2015, at public or private sale, in such aggregate principal amounts (not to exceed the aggregate principal amount set forth in Section 1), and in such series, at such prices (so long the discount on the Bonds sold shall not exceed six percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Borrower, may determine. The Bonds shall, at issuance, be rated at investment grade by an active nationally recognized rating agency. The Bonds or any series of them may, at the sole option of the Borrower, be secured by deeds of trust, a reserve fund, bond insurance, credit facility and other security arrangements and/or supported by one or more liquidity facilities.

SECTION 3. The following documents:

- (i) the Loan Agreement relating to the Bonds (the “Loan Agreement”), between the Authority and the Borrower,
- (ii) the Bond Indenture relating to the Bonds (the “Bond Indenture”), between the Authority and U.S. Bank National Association, as bond trustee (the “Trustee”),
- (iii) the Bond Purchase Agreement, including the exhibits thereto, relating to the Bonds (the “Purchase Contract”), among Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Underwriter”), the Treasurer and the Authority, and approved by the Borrower and/or the Obligated Group Agent, and
- (iv) the preliminary official statement relating to the Bonds (the “Preliminary Official Statement”),

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other credit and/or liquidity facility and/or another security arrangement, at the sole option of the Borrower, for any series of Bonds) as the officer executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Loan Agreement, the Bond Indenture and the Purchase Contract and by delivery thereof in the case of the Preliminary Official Statement. The Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

SECTION 4. The provisions of the Authority's Resolution No. 2013-02, as amended, apply to the documents and actions approved in this Resolution.

SECTION 5. Except as specifically amended by this Resolution, the Original Resolution shall remain in full force and effect.

SECTION 6. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

SECTION 7. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: _____

EXHIBIT A

Prior Project:

The proceeds of the California Health Facilities Financing Authority Revenue Bonds (Providence Health & Services), Series 2008C (the “Prior Bonds”) were used (A) to current refund the outstanding (i) California Health Facilities Financing Authority Insured Revenue Bonds (Little Company of Mary Health Services), Series 1998 (the “Series 1998 Bonds”), (ii) California Health Facilities Financing Authority Insured Variable Rate Revenue Bonds (Providence Health System), Series 2001A (the “Series 2001A Bonds”), and (iii) California Health Facilities Financing Authority Insured Variable Rate Revenue Bonds (Providence Health System), Series 2001B and Series 2001C (the “Series 2001BC Bonds” and, together with the Series 2001A Bonds, the “Series 2001 Bonds”), and (B) to refinance a portion of a loan from U.S. Bank National Association incurred on September 19, 2008 (the “2008 Loan”) used, in part, for the acquisition of Providence Tarzana Medical Center. The proceeds of the Series 1998 Bonds, the Series 2001 Bonds and the 2008 Loan were used to finance or refinance the costs of acquisition, construction, renovation and equipping of certain health facilities located in Burbank, Mission Hills, Torrance, San Pedro and Tarzana, California, which are owned and operated by the Borrower.